

**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



CRIT LUALLLEN
AUDITOR OF PUBLIC ACCOUNTS

To The People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Robert Marshall, Floyd County Judge/Executive

Members of the Floyd County Fiscal Court

The enclosed report prepared by Teddy Michael Prater, CPA, PLLC, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Teddy Michael Prater, CPA, PLLC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Teddy Michael Prater, CPA, PLLC evaluated Floyd County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Pubic Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FLOYD COUNTY FISCAL COURT**

June 30, 2009

Teddy Michael Prater CPA, PLLC has completed the audit of the Floyd County Fiscal Court for fiscal year ended June 30, 2009.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Floyd County, Kentucky.

Financial Condition:

The Fiscal Court had total net assets of \$3,278,494 as of June 30, 2009. The Fiscal Court had unrestricted net assets of \$2,275,424 in its governmental activities as of June 30, 2009, with total net assets of \$3,149,895. In its business-type activities, total net cash and cash equivalents were \$109,437 with total net assets of \$128,599. The fiscal court had total debt principal as of June 30, 2009 of \$17,467,676 with \$926,093 due within the next year.

Report Comments:

- 2009-1 The Fiscal Court Lacks Adequate Segregation Of Duties Over The Payroll Function
- 2009-2 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2009-3 The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets
- 2009-4 The Fiscal Court Should Follow Maximum Salary Schedules Provided By The Department For Local Government

Deposits:

The Fiscal Court's deposits as of February 19, 2009, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,896,241

The Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

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CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

TEDDY MICHAEL PRATER CPA, PLLC

HC 62 Box 291

Salyersville, KY 41465

Telephone (606) 349-8042

To The People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Robert Marshall, Floyd County Judge/Executive

Members of the Floyd County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the county's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Floyd County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Floyd County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Robert Marshall, Floyd County Judge/Executive
Members of the Floyd County Fiscal Court
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Floyd County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2010, on our consideration of Floyd County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2009-1 The Fiscal Court Lacks Adequate Segregation Of Duties Over The Payroll Function
- 2009-2 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2009-3 The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets
- 2009-4 The Fiscal Court Should Follow Maximum Salary Schedules Provided By The Department For Local Government

Respectfully submitted,

A handwritten signature in black ink that reads "Teddy Michael Prater CPA". The signature is written in a cursive, flowing style.

Teddy Michael Prater CPA, PLLC

February 25, 2010

Floyd County Officials

For The Year Ended June 30, 2009

Fiscal Court Members:

Robert Marshall	County Judge/Executive
Ronnie Akers	Magistrate
Donny Daniels	Magistrate
John Goble	Magistrate
Jackie Owens	Magistrate

Other Elected Officials:

Keith Bartley	County Attorney
Roger Webb	Jailer
Chris Waugh	County Clerk
Doug Hall	Circuit Court Clerk
John K. Blackburn	Sheriff
Connie Hancock	Property Valuation Administrator
Roger Nelson	Coroner

Appointed Personnel:

David Layne	County Treasurer
Ella M. Clay	Finance Officer

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FLOYD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

FLOYD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,992,954	\$ 109,437	\$ 3,102,391
Total Current Assets	2,992,954	109,437	3,102,391
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	3,501,249		3,501,249
Buildings	10,756,392		10,756,392
Other Equipment	306,806		306,806
Vehicles and Equipment	1,630,779	19,162	1,649,941
Infrastructure	1,429,391		1,429,391
Total Noncurrent Assets	17,624,617	19,162	17,643,779
Total Assets	20,617,571	128,599	20,746,170
LIABILITIES			
Current Liabilities:			
Bonds	785,000		785,000
Notes	20,000		20,000
Financing Obligations	121,093		121,093
Total Current Liabilities	926,093		926,093
Noncurrent Liabilities:			
Bonds	11,635,000		11,635,000
Notes	2,145,000		2,145,000
Financing Obligations	2,761,583		2,761,583
Total Noncurrent Liabilities	16,541,583		16,541,583
Total Liabilities	17,467,676		17,467,676
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	156,941	19,162	176,103
Restricted For:			
Debt Service	717,530		717,530
Unrestricted	2,275,424	109,437	2,384,861
Total Net Assets	\$ 3,149,895	\$ 128,599	\$ 3,278,494

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

FLOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,227,838	\$	\$ 1,365,283	\$
Protection to Persons and Property	2,006,465	4,676	629,774	291,345
General Health and Sanitation	2,547,306	2,123,546		436,234
Social Services	272,573		395,739	
Recreation and Culture	670,174	99,919	88,216	160,992
Roads	3,855,158		6,865,779	415,643
Road Facilities	45,521			
Debt Service	818,809			
Total Governmental Activities	14,443,844	2,228,141	9,344,791	1,304,214
Business-type Activities:				
Jail Canteen	45,477	30,892		
Total Business-type Activities	45,477	30,892		
Total Primary Government	\$ 14,489,321	\$ 2,259,033	\$ 9,344,791	\$ 1,304,214

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
Excess Fees
Licenses and Permits
Miscellaneous Revenues
Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,862,555)	\$	\$ (2,862,555)
(1,080,670)		(1,080,670)
12,474		12,474
123,166		123,166
(321,047)		(321,047)
3,426,264		3,426,264
(45,521)		(45,521)
(818,809)		(818,809)
<u>(1,566,698)</u>		<u>(1,566,698)</u>
	(14,585)	(14,585)
	(14,585)	(14,585)
<u>(1,566,698)</u>	<u>(14,585)</u>	<u>(1,581,283)</u>
1,222,067		1,222,067
415,200		415,200
444,056		444,056
871,722		871,722
175,004		175,004
35,683		35,683
971,040		971,040
42,638		42,638
<u>4,177,410</u>		<u>4,177,410</u>
2,610,712	(14,585)	2,596,127
539,183	143,184	682,367
<u>\$ 3,149,895</u>	<u>\$ 128,599</u>	<u>\$ 3,278,494</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

FLOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Construction Fund
ASSETS					
Cash and Cash Equivalents	\$ 603,532	\$ 120,830	\$ 133,491	\$ 615,351	\$ 703,418
Total Assets	<u>603,532</u>	<u>120,830</u>	<u>133,491</u>	<u>615,351</u>	<u>703,418</u>
FUND BALANCES					
Reserved for:					
Encumbrances	227,911	106,109	11,821	31,323	
Unreserved:					
General Fund	375,621				
Special Revenue Funds		14,721	121,670	584,028	703,418
Debt Service Fund					
Total Fund Balances	<u>\$ 603,532</u>	<u>\$ 120,830</u>	<u>\$ 133,491</u>	<u>\$ 615,351</u>	<u>\$ 703,418</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 717,530</u>	<u>\$ 98,802</u>	<u>\$ 2,992,954</u>
<u>717,530</u>	<u>98,802</u>	<u>2,992,954</u>
	4,910	382,074
		375,621
	93,892	1,517,729
<u>717,530</u>		<u>717,530</u>
<u>\$ 717,530</u>	<u>\$ 98,802</u>	<u>\$ 2,992,954</u>

Reconciliation of the Balance Sheet - Governmental Funds To The Statement Of Net Assets

Total Fund Balances	\$ 2,992,954
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	22,665,768
Accumulated Depreciation	(5,041,151)
Debt Not Due And Payable In The Current Period And, Therefore, Not Reported In The Funds.	
Due In One Year	(926,103)
Due In More Than One Year	<u>(16,541,573)</u>
Net Assets Of Governmental Activities	<u>\$ 3,149,895</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

FLOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 2,701,153	\$	\$	\$
In Lieu Tax Payments	28,517			
Excess Fees	175,004			
Licenses and Permits	35,683			
Intergovernmental	1,239,089	2,299,360	567,424	5,755,185
Charge for Services	2,123,546		4,676	99,919
Miscellaneous	191,039	13,729	40,670	12,807
Interest	13,994	1,408	352	3,169
Total Revenues	<u>6,508,025</u>	<u>2,314,497</u>	<u>613,122</u>	<u>5,871,080</u>
EXPENDITURES				
General Government	2,299,743			
Protection to Persons and Property	313,201		1,386,247	101,943
General Health and Sanitation	1,978,971			567,825
Social Services	253,458			14,000
Recreation and Culture				679,075
Roads		4,226,539		
Bus Services	45,521			
Debt Service	475,269	29,293		
Administration	896,543	434,211	355,192	134,569
Total Expenditures	<u>6,262,706</u>	<u>4,690,043</u>	<u>1,741,439</u>	<u>1,497,412</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>245,319</u>	<u>(2,375,546)</u>	<u>(1,128,317)</u>	<u>4,373,668</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	610,244	2,400,000	1,650,000	
Transfers To Other Funds	(789,459)		(464,754)	(4,100,000)
Total Other Financing Sources (Uses)	<u>(179,215)</u>	<u>2,400,000</u>	<u>1,185,246</u>	<u>(4,100,000)</u>
Net Change in Fund Balances	66,104	24,454	56,929	273,668
Fund Balances - Beginning (Restated)	537,428	96,376	76,562	341,683
Fund Balances - Ending	<u>\$ 603,532</u>	<u>\$ 120,830</u>	<u>\$ 133,491</u>	<u>\$ 615,351</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Construction Fund	Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 223,375	\$ 2,924,528
			28,517
			175,004
			35,683
	739,243	48,704	10,649,005
			2,228,141
700,000	2,000	10,795	971,040
3,418	20,008	289	42,638
703,418	761,251	283,163	17,054,556
		32,366	2,332,109
		236,544	2,037,935
			2,546,796
			267,458
			679,075
			4,226,539
			45,521
	1,452,707		1,957,269
	7,100	25,860	1,853,475
	1,459,807	294,770	15,946,177
703,418	(698,556)	(11,607)	1,108,379
	704,213		5,364,457
	(10,244)		(5,364,457)
	693,969		
703,418	(4,587)	(11,607)	1,108,379
	722,117	110,409	1,884,575
\$ 703,418	\$ 717,530	\$ 98,802	\$ 2,992,954

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

FLOYD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 1,108,379
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Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay	996,699
Depreciation Expense	(570,393)
Disposal of Capital Assets	(62,433)
The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds, While the Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect on Net Assets.	
Financing Obligations Principal Payments	113,460
Bond Principal Payments	1,005,000
Note Principal Payments	<u>20,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 2,610,712</u></u>
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FLOYD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

FLOYD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 109,437
Total Current Assets	<u>109,437</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	
Less Accumulated Depreciation	<u>19,162</u>
Total Noncurrent Assets	<u>19,162</u>
Total Assets	<u>128,599</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	19,162
Unrestricted	<u>109,437</u>
Total Net Assets	<u>\$ 128,599</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

FLOYD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 30,892
Total Operating Revenues	<u>30,892</u>
Operating Expenses	
Medical	25,041
Recreation and Education	5,346
Sales Tax	568
Depreciation	5,896
Food	197
Vehicle Maintenance	7,979
Miscellaneous	450
Total Operating Expenses	<u>45,477</u>
Operating Income	<u>(14,585)</u>
Change In Net Assets	(14,585)
Total Net Assets - Beginning	<u>143,184</u>
Total Net Assets - Ending	<u><u>\$ 128,599</u></u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

FLOYD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Payments From Customers	\$ 30,892
Cash Payments to Vendors for Goods and Services	<u>(39,581)</u>
Net Cash Provided By Operating Activities	<u>(8,689)</u>
Net Increase in Cash and Cash Equivalents	(8,689)
Cash and Cash Equivalents - July 1, 2008	<u>118,126</u>
Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 109,437</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ (14,585)
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>5,896</u>
Net Cash Provided By Operating Activities	<u><u>\$ (8,689)</u></u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

FLOYD COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Agency Fund</u>		
	<u>Inmate Account Fund</u>	<u>Bail Bonds Fund</u>	<u>Total Agency Funds</u>
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 10,737	\$ 490	\$ 11,227
Total Assets	<u>10,737</u>	<u>490</u>	<u>11,227</u>
Liabilities			
Amounts Held In Custody For Others	<u>10,737</u>	<u>490</u>	<u>11,227</u>
Total Liabilities	<u>\$ 10,737</u>	<u>\$ 490</u>	<u>\$ 11,227</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Floyd County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Floyd County Public Properties Corporation

The directors of the Floyd County Public Properties Corporation (PPC) are the duly elected County Judge/Executive and the other duly elected members of the Fiscal Court. The term of each director of the Corporation coincides with the director's term of office as a member of the Fiscal Court. Consequently, the governing board of the Corporation is entirely composed of Fiscal Court members and the Fiscal Court has the ability to impose its will on the governing board. In addition, the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

The Floyd County Fiscal Court must approve the issuance of bonded debt for the Public Properties Corporation; therefore, the Floyd County Public Properties Corporation is fiscally dependent.

Discretely Presented Component Unit

East Kentucky Utilities, Inc.

East Kentucky Utilities, Inc. (EKU) is a legally separate entity established to provide natural gas supply services to the customers of the Floyd County Gas System, a system owned by Floyd County, Kentucky. Prior to October 29, 2004, ECU was governed by a Board whose members were elected independently of the Floyd County Fiscal Court and consisted of a governing body that was substantially different from that of the Fiscal Court. However, due to circumstances requiring the Fiscal Court to assume management control of ECU from October 29, 2004, through the date of the sale of the entity, the fiscal court had pledged some degree of financial responsibility for ECU. Furthermore, three members of the Fiscal Court have served as members of ECU's board during this time frame. These circumstances required management to include the Board as a discretely presented component unit. During the year ECU was sold and the sale was finalized in December and therefore, as of June 30, 2009, is no longer a component unit of Floyd County.

C. Floyd County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Floyd County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Floyd County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services industrial and economic development, workforce training and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Construction Fund - Revenue from the sale of East Kentucky Utilities, Inc, a discretely presented component unit of the Floyd County Fiscal Court, was deposited into this account. Funds from this account are reserved for satisfying any liabilities of East Kentucky Utilities, Inc.

Floyd County Public Properties Corporation Fund - The Floyd County Public Properties Corporation accounts for the activities of the Public Properties Corporation (PPC), a blended component unit of the County. The Public Properties Corporation issued debt to build major facilities or additions to be used by the County such as the County's Detention Center and its Solid Waste/Landfill facility, or to be leased to other agencies. The Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky, in which AOC wishes to use and sublease all or a portion of certain facilities owned by the County. Receipts also include bond principal and interest payments from the East Kentucky Utilities, Inc. relative to the Floyd County Gas System for a portion of the 1999 Revenue Refunding Bonds and the Floyd County Racing Commission and Appalachian Racing, Inc. for the entire amount of the principal and interest payments made on the Fairgrounds and Convention Center Bonds. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: State Grants Fund, Federal Grant Fund, Revolving Loan Fund, and Enhanced 911 Fund.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grants Fund, Federal Grant Fund, Revolving Loan Fund, and Enhanced 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. A debt service fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued November 30, 1989, unless the Governmental Accounting Standards Board (GASB) adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency funds are used to account for monies held by the county for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Inmate Account Fund - This fund accounts for funds received from inmates of the jail for the jail commissary and returned after their release.

Bail Bonds Fund - This fund accounts for funds of bail bonds collected from inmates and turned over to the Circuit Court Clerk.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	40-75
Buildings and Building Improvements	\$ 25,000	40-75
Machinery and Equipment	\$ 2,500	5-25
Vehicles	\$ 2,500	5-20
Infrastructure	\$ 20,000	5-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Floyd County Public Properties Corporation Fund (blended component unit) and the Jail Canteen Fund are not budgeted by the County Treasurer. The Department for Local Government does not require the fiscal court to report or budget these funds.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

However, as of February 19, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the government's deposits in accordance with the security agreement. The bank balances of \$4,640,620 were exposed to custodial risk as follows:

- \$1,896,241 unsecured and uncollateralized as of February 19, 2009.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 3,501,249	\$	\$	\$ 3,501,249
Total Capital Assets Not Being Depreciated	3,501,249			3,501,249
Capital Assets, Being Depreciated:				
Buildings	13,762,943	55,000		13,817,943
Other Equipment	607,914	7,000		614,914
Vehicles and Equipment	2,143,998	726,679	(249,602)	2,621,075
Infrastructure	1,902,567	208,020		2,110,587
Total Capital Assets Being Depreciated	18,417,422	996,699	(249,602)	19,164,519
Less Accumulated Depreciation For:				
Buildings	(2,878,743)	(182,808)		(3,061,551)
Other Equipment	(276,960)	(31,148)		(308,108)
Vehicles and Equipment	(1,001,971)	(175,494)	187,169	(990,296)
Infrastructure	(500,253)	(180,943)		(681,196)
Total Accumulated Depreciation	(4,657,927)	(570,393)	187,169	(5,041,151)
Total Capital Assets, Being Depreciated, Net	13,759,495	426,306	(62,433)	14,123,368
Governmental Activities Capital Assets, Net	<u>\$ 17,260,744</u>	<u>\$ 426,306</u>	<u>\$ (62,433)</u>	<u>\$ 17,624,617</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 36,850	\$	\$	\$ 36,850
Total Capital Assets Being Depreciated	36,850			36,850
Less Accumulated Depreciation For:				
Vehicles and Equipment	(11,792)	(5,896)		(17,688)
Total Accumulated Depreciation	(11,792)	(5,896)		(17,688)
Total Capital Assets, Being Depreciated, Net	25,058	(5,896)		19,162
Business-Type Activities Capital Assets, Net	<u>\$ 25,058</u>	<u>\$ (5,896)</u>	<u>\$</u>	<u>\$ 19,162</u>

The beginning balance for Vehicles and Equipment was decreased by \$210,000 due to prior year overstatement of assets. Related accumulated depreciation for Vehicles and Equipment was also reduced by \$119,342. The beginning balance for accumulated depreciation for Other Equipment was decreased by \$800 due to prior year overstatement of depreciation expense.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities

General Government	\$ 71,558
Protection to Persons and Property	187,020
General Health and Sanitation	510
Social Services	5,115
Recreation and Culture	20,266
Roads, Including Depreciation of General Infrastructure Assets	<u>285,924</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 570,393</u>

Business-Type Activities

Jail Canteen	<u>\$ 5,896</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 5,896</u>

Note 4. Long-term Debt

A. General Obligation Refinancing Bonds, Series 1999 - Detention, Solid Waste, and Gas

In April 1999, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$9,445,000 in General Obligation Refinancing Bonds, Series 1999. The proceeds from these bonds were used to refinance the 1999 East Kentucky Utilities Gas Systems Bonds, the 1994 Solid Waste Refunding and Improvement Revenue Bonds, and the 1994 Detention Facility First Mortgage Revenue Bonds. These bonds are scheduled to mature in 2019 and carry an interest rate of 4.35% to 4.40%. Semiannual interest payments are required in September and March.

On February 20, 2009, sufficient funds were placed on deposit with the trustee to allow for the redemption of the portion of the 1999 bonds related to the gas system. The financial statements, as of June 30, 2009, do not include these funds on deposit with the trustee or these bonds in future debt service schedules. Subsequently, these bonds were redeemed at 102% on September 1, 2009 and are no longer outstanding. As of June 30, 2009, the principal balance outstanding on the remaining bonds was \$4,820,000. Debt service requirements for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 495,000	\$ 212,080
2011	525,000	190,300
2012	550,000	167,200
2013	580,000	143,000
2014	600,000	117,480
2015-2019	<u>2,070,000</u>	<u>280,720</u>
Totals	<u>\$ 4,820,000</u>	<u>\$ 1,110,780</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

B. First Mortgage Revenue Refunding Bonds, Series 2002 - Justice Center Project

On September 2002, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$9,165,000 in First Mortgage Revenue Refunding Bonds, Series 2002. The proceeds from these refunding bonds were used to refinance the 1995 First Mortgage Revenue Bonds, Series A and 1996 First Mortgage Revenue Bonds, Series B. These bonds are scheduled to mature in 2026 and carry an interest rate of 3.0% to 4.75%. Semiannual interest payments are required in September 1 and March 1 of each year.

The Floyd County Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to manage and maintain the Justice Center. The Floyd County Public Properties Corporation expects rentals for use of the Justice Center to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Floyd County Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

The Administrative Office of the Courts with the execution of the lease of expressed its intention to continue to pay the full allowance payment in successive biennial budget period until September 2026. However, the lease does not obligate the Administrative Office of the Courts to do so.

As of June 30, 2009, the principal balance on these bonds was \$7,600,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 290,000	\$ 326,438
2011	300,000	316,256
2012	315,000	305,298
2013	325,000	293,495
2014	340,000	280,771
2015-2019	1,910,000	1,179,704
2020-2024	2,390,000	703,125
2025-2027	1,730,000	125,875
Totals	<u>\$ 7,600,000</u>	<u>\$ 3,530,962</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

C. First Mortgage Revenue Anticipation Notes, Series 2007 - Convention Facility - Racetrack

In April 2007, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$2,205,000 in First Mortgage Revenue Anticipation Notes, Series 2007. The proceeds from these refunding notes were used to refinance the First Mortgage Revenue Anticipation Notes, Series 2004 associated with the Thunder Ridge Fairground and Convention Center. These notes are scheduled to mature in May 2011 and carry an interest rate of 3.0%. Semiannual interest payments are required in November and May and the full principal amount is due in May 2011. As of June 30, 2009, the principal balance outstanding on these notes was \$2,165,000. Debts service requirements for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 20,000	\$ 97,425
2011	2,145,000	96,525
Totals	<u>\$ 2,165,000</u>	<u>\$ 193,950</u>

D. Big Sandy Area Development District - Office Building

On October 16, 1992, Floyd County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for the construction of an office building for use by the Big Sandy Area Development District. The principal amount of the lease was \$850,000. Under a sublease agreement, the Big Sandy Area Development District will pay to the County sufficient funds to meet lease rental requirements. The agreement requires variable monthly payments for 25 years to be paid in full on January 20, 2018. The principal balance remaining as of June 30, 2009 was \$434,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 39,000	\$ 22,182
2011	41,000	20,057
2012	43,000	17,856
2013	45,000	15,523
2014	48,000	13,070
2015-2018	218,000	24,953
Totals	<u>\$ 434,000</u>	<u>\$ 113,641</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

E. KADD - Southern Water

In June 2005, Floyd County entered into a lease agreement with the Kentucky Area Development Districts Financing Trust, Series 2005K in the amount of \$2,600,000. The lease was used to refund the First Mortgage Revenue Bond Anticipation Notes, Series 2004 B in the amount of \$2,455,000. Terms of the agreement stipulate a thirty-year repayment schedule, with biannual interest payments at a fixed rate of 4.56%. The principal amount is due December 1, and June 1, of each year. As of June 30, 2009, the principal balance was \$2,395,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 55,000	\$ 106,606
2011	55,000	104,790
2012	55,000	102,866
2013	60,000	100,940
2014	60,000	98,660
2015-2019	345,000	454,812
2020-2024	420,000	374,052
2025-2029	525,000	268,782
2030-2034	665,000	133,246
2035	155,000	7,286
Totals	<u>\$ 2,395,000</u>	<u>\$ 1,752,040</u>

F. Case Backhoe

In February 2006, Floyd County entered into a lease agreement with Wilson Equipment and CNH Capital for a 580 Super Case Backhoe. The principal amount of the lease was \$70,423 in which a down payment was required. The agreement requires fixed monthly payments for 60 months with \$1 bargain purchase price due in March 2011. As of June 30, 2009, the remaining principal outstanding was \$23,474. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 14,085	\$ 2,715
2011	9,389	1,810
Totals	<u>\$ 23,474</u>	<u>\$ 4,525</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

G. Caterpillar Backhoe

In September 2006, Floyd County entered into a lease agreement with Caterpillar Financial Services Corporation for a 420 Backhoe. The principal amount on the lease was \$62,806. The agreement requires fixed monthly payments for the 48 months with \$1 bargain price due in September 2011. As of June 30, 2009, the remaining principal outstanding was \$30,202. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 13,008	\$ 1,212
2011	13,669	551
2012	3,525	30
Totals	<u>\$ 30,202</u>	<u>\$ 1,793</u>

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 5,545,000	\$	\$ 725,000	\$ 4,820,000	\$ 495,000
Revenue Bonds	7,880,000		280,000	7,600,000	290,000
Notes	2,185,000		20,000	2,165,000	20,000
Financing Obligations	2,996,136		113,460	2,882,676	121,093
Governmental Activities Long-term Liabilities	<u>\$ 18,606,136</u>	<u>\$</u>	<u>\$ 1,138,460</u>	<u>\$17,467,676</u>	<u>\$ 926,093</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$131,605 in interest on financing obligations and \$687,204 in interest on bonds and notes.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Garth Landfill

The Garth Landfill quit accepting garbage in the mid 1990's. The Fiscal Court must comply with established state and federal landfill closure and post closure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. During the fiscal year ended June 30, 2009, the County incurred \$15,413 for monitoring, supplies, equipment and testing associated with the closing of the Garth Landfill.

Note 7. Commitment - Non-Federal Sponsor of the Town of Martin Non-Structural Flood Control Project

Floyd County is the non-federal sponsor of the Town of Martin Non-Structural Flood Control Project. The state of Kentucky is required to provide a 5% match of the estimated project expenditure of federal monies. As the project's non-federal sponsor, Floyd County has agreed to contribute a 5% matching requirement. During the fiscal year ended June 30, 2009, the Fiscal Court contributed \$10,263 toward this project.

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

The county's contribution for FY 2007 was \$458,055, FY 2008 was \$592,084, and FY 2009 was \$536,308.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 9. Deferred Compensation

The Floyd County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2009, Floyd County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 11. Prior Period Adjustments

Net Asset - July 1, 2008	\$ 621,386
Capital Assets Overstatement	(90,658)
Overstatement of Cash	(5,903)
Overstatement of Prior Year Depreciation Expense	800
Prior Year Voided Checks	<u>13,558</u>
Restated Net Assets - July 1, 2008	<u><u>\$ 539,183</u></u>
Restated Fund Balances:	
General Fund Balance - June 30, 2008	\$ 524,567
Voided Checks	<u>12,861</u>
Restated Balance - June 30, 2008	<u><u>\$ 537,428</u></u>
Jail Fund Balance - June 30, 2008	\$ 76,444
Voided Checks	<u>118</u>
Restated Balance - June 30, 2008	<u><u>\$ 76,562</u></u>
LGEA Fund Balance - June 30, 2008	\$ 341,167
Voided Checks	<u>516</u>
Restated Balance - June 30, 2008	<u><u>\$ 341,683</u></u>
E-911 Fund Balance - June 30, 2008	\$ 81,402
Voided Checks	<u>63</u>
Restated Balance - June 30, 2008	<u><u>\$ 81,465</u></u>

The East Kentucky Utilities, Inc. previously included in the reporting entity as a discretely presented component unit, no longer meets the definition. See Note 1.

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FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,385,300	\$ 2,385,300	\$ 2,701,153	\$ 315,853
In Lieu Tax Payments	25,000	25,000	28,517	3,517
Excess Fees			175,004	175,004
Licenses and Permits	46,000	46,000	35,683	(10,317)
Intergovernmental Revenue	626,400	626,400	1,239,089	612,689
Charges for Services	1,950,000	1,950,000	2,123,546	173,546
Miscellaneous	798,215	798,215	191,039	(607,176)
Interest	31,500	31,500	24,238	(7,262)
Total Revenues	5,862,415	5,862,415	6,518,269	655,854
EXPENDITURES				
General Government	1,956,214	2,438,697	2,299,743	138,954
Protection to Persons and Property	138,680	365,180	313,201	51,979
General Health and Sanitation	1,993,500	2,013,500	1,978,971	34,529
Social Services	192,000	255,200	253,458	1,742
Airport	10,000			
Bus Services	60,000	60,000	45,521	14,479
Debt Service	1,786,694	1,043,890	714,728	329,162
Administration	1,017,340	977,961	896,543	81,418
Total Expenditures	7,154,428	7,154,428	6,502,165	652,263
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,292,013)	(1,292,013)	16,104	1,308,117
OTHER FINANCING SOURCES (USES)				
Borrowed Money	800,000	800,000		(800,000)
Transfers From Other Funds			600,000	600,000
Transfers To Other Funds	(100,000)	(100,000)	(550,000)	(450,000)
Total Other Financing Sources (Uses)	700,000	700,000	50,000	(650,000)
Net Changes in Fund Balance	(592,013)	(592,013)	66,104	658,117
Fund Balance - Beginning	592,013	592,013	537,428	(54,585)
Fund Balance - Ending	\$	\$	\$ 603,532	\$ 603,532

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

**Reconciliation to the Statement of Revenue, Expenditures
And Changes In Fund Balances**

Total Revenues	\$ 6,518,269
Less: Transfers In From PPC	<u>(10,244)</u>
Total Revenue to Statement	<u>\$ 6,508,025</u>
Total Expenditures	\$ 6,502,165
Less: Public Properties Corporation Debt Payments	<u>(239,459)</u>
Total Expenditures to Statement	<u>\$ 6,262,706</u>
Other Financing Sources	\$ 50,000
Add: Transfer From PPC	10,244
Add: Transfer Out to PPC for Debt Service	<u>(239,459)</u>
Total Other Financing Sources (Uses) to Statement	<u>\$ (179,215)</u>

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,671,986	\$ 2,671,986	\$ 2,299,360	\$ (372,626)
Miscellaneous			13,729	13,729
Interest	2,080	2,080	1,408	(672)
Total Revenues	<u>2,674,066</u>	<u>2,674,066</u>	<u>2,314,497</u>	<u>(359,569)</u>
EXPENDITURES				
Roads	2,669,525	4,440,316	4,226,539	213,777
Debt Service	597,000	31,000	29,293	1,707
Administration	633,475	478,684	434,211	44,473
Total Expenditures	<u>3,900,000</u>	<u>4,950,000</u>	<u>4,690,043</u>	<u>259,957</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,225,934)</u>	<u>(2,275,934)</u>	<u>(2,375,546)</u>	<u>(99,612)</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	100,000	100,000		(100,000)
Transfers From Other Funds	1,000,000	1,000,000	2,400,000	1,400,000
Total Other Financing Sources (Uses)	<u>1,100,000</u>	<u>1,100,000</u>	<u>2,400,000</u>	<u>1,300,000</u>
Net Changes in Fund Balance	(125,934)	(1,175,934)	24,454	1,200,388
Fund Balance - Beginning	<u>125,934</u>	<u>125,934</u>	<u>96,376</u>	<u>(29,558)</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ (1,050,000)</u>	<u>\$ 120,830</u>	<u>\$ 1,170,830</u>

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 701,000	\$ 701,000	\$ 567,424	\$ (133,576)
Charges for Services	9,000	9,000	4,676	(4,324)
Miscellaneous	23,000	23,000	40,670	17,670
Interest	2,000	2,000	352	(1,648)
Total Revenues	735,000	735,000	613,122	(121,878)
EXPENDITURES				
Protection to Persons and Property	1,418,400	1,459,523	1,386,247	73,276
Debt Service	479,005	465,005	464,754	251
Administration	402,595	375,472	355,192	20,280
Total Expenditures	2,300,000	2,300,000	2,206,193	93,807
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,565,000)	(1,565,000)	(1,593,071)	(28,071)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,500,000	1,500,000	1,650,000	150,000
Total Other Financing Sources (Uses)	1,500,000	1,500,000	1,650,000	150,000
Net Changes in Fund Balance	(65,000)	(65,000)	56,929	121,929
Fund Balance - Beginning	65,000	65,000	76,562	11,562
Fund Balance - Ending	\$	\$	\$ 133,491	\$ 133,491
Reconciliation to the Statement of Revenue, Expenditures And Changes In Fund Balances				
Total Expenditures			\$ 2,206,193	
Less: Transfer Out To PPC for Debt Service			(464,754)	
Total Expenditures to Statement			\$ 1,741,439	
Other Financing Sources			\$ 1,650,000	
Add: Transfer Out To PPC for Debt Service			(464,754)	
Total Other Financing Sources (Uses) to Statement			\$ 1,185,246	

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 5,660,000	\$ 5,660,000	\$ 5,755,185	\$ 95,185
Charges for Services	100,000	100,000	99,919	(81)
Miscellaneous	80,000	80,000	12,807	(67,193)
Interest	9,000	9,000	3,169	(5,831)
Total Revenues	5,849,000	5,849,000	5,871,080	22,080
EXPENDITURES				
General Government	400,000	10,000		10,000
Protection to Persons and Property	220,370	126,870	101,943	24,927
General Health and Sanitation	1,188,000	756,000	567,825	188,175
Social Services		32,000	14,000	18,000
Recreation and Culture	1,510,635	1,503,021	679,075	823,946
Capital Projects	125,000	25,000		25,000
Administration	255,995	209,109	134,569	74,540
Total Expenditures	3,700,000	2,662,000	1,497,412	1,164,588
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	2,149,000	3,187,000	4,373,668	1,186,668
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(2,400,000)	(2,400,000)	(4,100,000)	(1,700,000)
Total Other Financing Sources (Uses)	(2,400,000)	(2,400,000)	(4,100,000)	(1,700,000)
Net Changes in Fund Balances	(251,000)	787,000	273,668	(513,332)
Fund Balances - Beginning (Restated)	251,000	251,000	341,683	90,683
Fund Balances - Ending	\$	\$ 1,038,000	\$ 615,351	\$ (422,649)

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

CONSTRUCTION FUND			
	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	
REVENUES			
Miscellaneous	\$	\$ 700,000	\$ 700,000
Interest			3,418
Total Revenues		700,000	703,418
EXPENDITURES			
Administration		700,000	700,000
Total Expenditures		700,000	700,000
Net Changes in Fund Balances			703,418
Fund Balances - Beginning			
Fund Balances - Ending	\$	\$	\$ 703,418

FLOYD COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**FLOYD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION**

June 30, 2009

**FLOYD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION**

June 30, 2009

	State Grants Fund	Federal Grant Fund	Revolving Loan Fund	Enhanced 911 Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 13,983	\$ 6,320	\$ 14,778	\$ 63,721	\$ 98,802
Total Assets	<u>13,983</u>	<u>6,320</u>	<u>14,778</u>	<u>63,721</u>	<u>98,802</u>
FUND BALANCES					
Reserved for:					
Encumbrances				4,910	4,910
Unreserved:					
Special Revenue Funds	<u>13,983</u>	<u>6,320</u>	<u>14,778</u>	<u>58,811</u>	<u>93,892</u>
Total Fund Balances	<u>\$ 13,983</u>	<u>\$ 6,320</u>	<u>\$ 14,778</u>	<u>\$ 63,721</u>	<u>\$ 98,802</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2009

FLOYD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2009

	State Grants Fund	Federal Grant Fund	Revolving Loan Fund
REVENUES			
Taxes	\$	\$	\$
Intergovernmental	10,170	38,534	
Miscellaneous			
Interest			55
Total Revenues	<u>10,170</u>	<u>38,534</u>	<u>55</u>
EXPENDITURES			
General Government		32,366	
Protection to Persons and Property	10,256		
Administration			
Total Expenditures	<u>10,256</u>	<u>32,366</u>	<u></u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(86)</u>	<u>6,168</u>	<u>55</u>
Other Financing Sources (Uses)			
Net Change in Fund Balances	(86)	6,168	55
Fund Balances - Beginning (Restated)	14,069	152	14,723
Fund Balances - Ending	<u>\$ 13,983</u>	<u>\$ 6,320</u>	<u>\$ 14,778</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2009
(Continued)

Enhanced 911 Fund	Total Non-Major Governmental Funds
\$ 223,375	\$ 223,375
	48,704
10,795	10,795
234	289
<u>234,404</u>	<u>283,163</u>
	32,366
226,288	236,544
25,860	25,860
<u>252,148</u>	<u>294,770</u>
<u>(17,744)</u>	<u>(11,607)</u>
(17,744)	(11,607)
81,465	110,409
<u>\$ 63,721</u>	<u>\$ 98,802</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2009

FLOYD COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2009

<u>Program Title</u>	<u>Pass-through Entity ID Number</u>	<u>Federal CFDA No.</u>	<u>Disbursements</u>
U.S. Department of Homeland Security			
<i>Passed Through KY Office of Homeland Security</i>			
Public Assistance Grant-Flood	FEMA-1841-DR KY	97.036	\$ 447,343 *
Public Assistance Grant-Ice Storm	FEMA-1818-DR KY	97.036	76,506
Total CFDA # 97.036			523,849
Emergency Management Performance Grant	N/A	97.042	17,992
Equipment Grant	PO 094 0800017811 1	97.067	15,795
Total U.S. Department of Homeland Security			557,636
United States Department of Agriculture			
Natural Resources Conservation Service			
Emergency Watershed Protection Program Grant		10.904	57,326 *
U.S. Department of Transportation			
<i>Passed Through KY Transportation Cabinet</i>			
Middlecreek Battlefield Enhancement Project	C-00067717	20.205	22,599
Appalachian Regional Commission			
<i>Passed Through Department For Local Government</i>			
Appalachian Regional Commission Flex-E Grant	F06-17	23.002	15,840
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 653,401</u>

*Tested as Major Program **

FLOYD COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2009

Note A - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Floyd County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TEDDY MICHAEL PRATER CPA, PLLC

HC 62 Box 291

Salyersville, KY 41465

Telephone (606) 349-8042

The Honorable Robert Marshall, Floyd County Judge/Executive
Members of the Floyd County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated February 25, 2010. Floyd County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Floyd County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Floyd County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Floyd County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 2009-1, 2009-2, and 2009-3.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Floyd County's financial statements, as of and for the year ended June 30, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs: 2009-4.

Management's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Department for Local Government, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Teddy Michael Prater CPA". The signature is written in a cursive, flowing style.

Teddy Michael Prater CPA, PLLC

February 25, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

TEDDY MICHAEL PRATER CPA, PLLC
HC 62 Box 291
Salyersville, KY 41465
Telephone (606) 349-8042

The Honorable Robert Marshall, Floyd County Judge/Executive
Members of the Floyd County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Floyd County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Floyd County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Floyd County's management. Our responsibility is to express an opinion on Floyd County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Floyd County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Floyd County's compliance with those requirements.

In our opinion, Floyd County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Floyd County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Floyd County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Floyd County's internal control over compliance.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Teddy Michael Prater CPA". The signature is written in a cursive, flowing style.

Teddy Michael Prater CPA, PLLC

February 25, 2010

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2009

**FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of Floyd County, Kentucky.
2. Three significant deficiencies, which are also considered to be material weaknesses, relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Floyd County was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Floyd County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Floyd County reported in Part C of this schedule.
7. The programs tested as major programs were: Public Assistance Grant (CFDA 97.036) and Emergency Watershed Protection Program (CFDA 10.904).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Floyd County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES & MATERIAL WEAKNESSES:

2009-1 The Fiscal Court Lacks Adequate Segregation Of Duties Over The Payroll Function

A lack of adequate segregation of duties exists over the payroll function. One individual enters the information necessary to process the payroll into the computer payroll system, prepares the documentation, which includes leave time balances, prepares checks, and reconciles the retirement bank account.

Segregation of duties over payroll functions or implementing compensating controls, when needed because of staff size, is essential for providing protection from asset misappropriation and/or inaccurate financing reporting. Additionally, proper segregation of duties are essential in performing payroll responsibilities.

Because one employee handled all payroll functions and oversight was not provided, the following occurred:

- The County Judge/Executive was overpaid by \$7,608. **(See Comment 2009-4)**
- The Jailer was overpaid by \$7,160. **(See Comment 2009-4)**
- Several employees took more than ten (10) consecutive days of sick time without following provisions of the administrative code. The administrative code requires any employee taking more than 80 consecutive sick hours have both a doctor's excuse and approval of the County Judge/Executive.
- Not all time cards were approved by the supervisor. In several instances an employee would sign their supervisor's name to the time card and then initial the signature thus in reality signing/approving their own time card.

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES & MATERIAL WEAKNESSES:
(Continued)

2009-1 The Fiscal Court Lacks Adequate Segregation Of Duties Over The Payroll Function
(Continued)

- Our test of payroll found on at least two occasions employees were paid compensatory time. The administrative code has no provisions which allows compensatory time payments.
- Our test revealed an employee took 230 consecutive hours of annual leave time. The administrative code limits this to no more than 80 consecutive hours without the County Judge/Executive's approval.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, we recommend the fiscal court separate the duties of the payroll functions to the extent possible. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties. We further recommend that efforts be made to ensure that payroll provisions in the administrative code be complied with and/or these provisions be updated, changed or eliminated.

County Judge/Executive's Response: The County agrees with the above stated recommendations on the segregation of duties and will make the necessary efforts to follow through on these recommendations, including stronger oversight over the applicable employees responsible for those duties. The County also acknowledges the recommendations and in response the County has placed all employees on notice of the administrative code's policy pertaining to sick leave. Additionally the County has informed each department's supervisor of the need to obtain a doctor's excuse from an employee after he/she has used three sick days within a year. The County has also informed all supervisors that the Judge/Executive or Deputy Judge is to sign their time card and that without the signature that said time card shall not be processed.

2009-2 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund

The Fiscal Court did not maintain proper records for the Public Properties Corporation - Debt Service Fund (PPC). The County made all bank statements available, however, they did not maintain a receipts and disbursements ledger or prepare a financial statement. We recommend the County maintain a receipts and disbursements ledger and prepare a financial statement for the Public Properties Corporation Fund.

County Judge/Executive's Response: While the County did provide a financial statement in the quarterly and annual reports; however the County will maintain a receipt and disbursement ledger in the future and will make the necessary efforts to follow through on these recommendations.

2009-3 The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets

As of June 30, 2009, the County did not have available a capital assets schedule in any form. In addition, no log or list was maintained for capital assets purchased, disposed of and infrastructure improvements such as road paving and construction or repair of bridges for fiscal year ended June 30, 2009. We recommend the County maintain an accurate capital assets listing. This list should include all capital asset purchases, capital road expenditures that includes list of roads paved, bridges replaced, as well as any other capital project.

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES & MATERIAL WEAKNESSES:
(Continued)

2009-3 The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets
(Continued)

County Judge/Executive's Response: The County agrees with this statement and shall have the Road Department and Finance Officer follow this recommendation. The Finance Officer shall periodically review the capital asset list to make sure that this recommendation is being followed as stated.

STATE LAWS AND REGULATIONS

2009-4 The Fiscal Court Should Follow Maximum Salary Schedules Provided By The Department For Local Government

KRS 67.705 and KRS 441.245 states the County Judge/Executive and Jailer shall receive an annual salary pursuant to the salary schedule set by the Department for Local Government. The maximum salary for the County Judge/Executive in calendar year 2008 was \$81,070, including training incentives; however, payroll records and reports indicate that the County Judge/Executive received \$88,678, which is \$7,608 more than the maximum salary amount. The maximum salary for the Jailer in calendar year 2008 was \$88,120, including training incentives, however, payroll records and reports indicate the Jailer received \$95,279, which is \$7,159 more than the maximum salary amount. We recommend the county recover these overpayments of salaries and comply with the applicable salary statutes in the future.

County Judge/Executive's Response: The County would like to state that the salary amount for both the Judge and Jailer was changed as a result of the comment from the FY 2007-2008 audit performed by the state auditors office which stated both the Judge and Jailer had been underpaid. However, the County will make the necessary efforts to assure that the proper effective date is used to calibrate the above stated salaries. Both the Judge and Jailer have agreed to make restitution by reducing the amount of their salary until such time as the amount is repaid to the County,

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
FLOYD COUNTY FISCAL COURT**


**For The Fiscal Year Ended
June 30, 2009**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
FLOYD COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2009

The Floyd County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


County Judge Executive


County Treasurer

